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## A letter from U.S. Bank Wealth Management Chief Investment Officer, Eric Freedman

Dear Client,

The current capital market landscape remains under significant pressure. Investor concerns began with growth worries tied to the COVID-19 coronavirus and now include tensions between major energy producers and most recently questions about policy responses from both U.S. and foreign governments and central banks. Selling has spread across asset classes, including stocks, bonds, currencies, and commodities. Investors, uncertain how to gauge the current crises' magnitude and duration, are beginning to sell more aggressively. The news cycle remains active as markets react to new travel restrictions, postponed or canceled major sporting events, and even coronavirus diagnoses of celebrities and public figures.

In our communications, we have stressed the need to have a plan, reaffirm risk tolerances, check bond portfolios to ensure quality, and if you determined that raising cash was a necessity, mapping out a plan for redeploying. That remains our advice. We also highlighted in our March 11<sup>th</sup> client call the possibility that an additional 15-20% decline in riskier asset classes may need to be factored into plans, given the multiple dynamics driving the current investment landscape. We don't know if that will definitively be the case, but considering all the selling we have seen thus far, asset prices could head even lower.

### Stages of market reaction

We have emphasized the three stages of market reactions to shocks, like we are currently enduring.

1. First a reactionary phase where short-term investors react immediately to a news headline.
2. Second is a liquidity stage where margin calls or risk managers force investors to sell positions they don't want to sell.
3. Third and final is a fundamental stage where investors gain more clarity on the situation and can discount earnings and growth prospects, and markets finally clear.

We believe we are still within the first and second stages. The challenge in front of us is that the longer we remain in these early stages and the more forced selling that occurs, we could see a breakdown in the historic relationships across asset classes. Most importantly, to date, high-quality bonds have provided an offset to equities. However, should we see things weaken materially from here and investors scramble to raise cash, bonds of all varieties may not provide the same offset because they may drop in value. While this is not in our base case, it is an important possibility to incorporate into investment plans by ensuring an appropriate allocation to the highest quality bonds.

### Looking for stabilization

The biggest risk in raising cash allocations or shifting to a more conservative investment plan is missing out on a potential rebound in the assets you sold or other assets you could own. The three largest catalysts to stabilize or dramatically improve market conditions are (1) material improvement on virus containment or a path towards a definitive treatment or cure, (2) announcement of a significant fiscal (government spending or taxation changes) or monetary (level of interest rates or asset purchases) stimulus, or (3) an agreement on oil prices to maintain stability between major oil producers. These developments are all "edgeless" in nature, meaning it is difficult to have a definitive analytical edge or well-constructed view on when they may arrive.

Investment products and services are:

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### Important considerations

Within U.S. Bank Wealth Management, we believe deeply in properly matching a client with a given investment approach based on their unique financial circumstances and risk tolerance and managing to that mandate through time. We also believe that over longer periods of time, investors are rewarded for the risks that they are willing to take. However, the current environment presents unique considerations like historically low interest rates, a very fractured political environment that could thwart compromise in a contested election year, and a global pandemic that is yet to be contained.

While this is not blanket advice for all clients, if you are debating solutions in the current environment, we would err on the side of caution versus being very opportunistic, especially with dollars earmarked for expenses coming in the next 12-18 months. I write this not only as an investment professional but as a fellow investor. Like you, I have expenses immediately at hand (college tuitions, a mortgage, groceries) and others in the future (most notably two more college tuitions and hopefully some wedding celebrations for my kids). For my near-term expenses, I am continually evaluating the risk-reward tradeoff of how my assets are allocated, and for my longer-term expenses, I am doing the same exercise, focusing on living within my means and being measured with steps I am taking for my personal assets.

These are trying and often frustrating times. We are committed to serving you with a team of professionals who engage with you on connecting current circumstances with your unique situation. Please do not hesitate to get in touch with us if we can provide more specific views and guidance. We will keep you posted on our views, and as always thank you for your trust.

Sincerely,

Eric J. Freedman  
Chief Investment Officer  
U.S. Bank Wealth Management

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Based on our strategic approach to creating diversified portfolios, guidelines are in place concerning the construction of portfolios and how investments should be allocated to specific asset classes based on client goals, objectives and tolerance for risk. Not all recommended asset classes will be suitable for every portfolio. Diversification and asset allocation do not guarantee returns or protect against losses.

Past performance is no guarantee of future results. All performance data, while obtained from sources deemed to be reliable, are not guaranteed for accuracy. Indexes shown are unmanaged and are not available for direct investment. The S&P 500 Index consists of 500 widely traded stocks that are considered to represent the performance of the U.S. stock market in general.

Equity securities are subject to stock market fluctuations that occur in response to economic and business developments. International investing involves special risks, including foreign taxation, currency risks, risks associated with possible differences in financial standards and other risks associated with future political and economic developments. Investing in emerging markets may involve greater risks than investing in more developed countries. In addition, concentration of investments in a single region may result in greater volatility. Investing in fixed income securities are subject to various risks, including changes in interest rates, credit quality, market valuations, liquidity, prepayments, early redemption, corporate events, tax ramifications and other factors. Investment in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in lower-rated and non-rated securities present a greater risk of loss to principal and interest than higher-rated securities. Investments in high yield bonds offer the potential for high current income and attractive total return, but involve certain risks. Changes in economic conditions or other circumstances may adversely affect a bond issuer's ability to make principal and interest payments. The municipal bond market is volatile and can be significantly affected by adverse tax, legislative or political changes and the financial condition of the issues of municipal securities. Interest rate increases can cause the price of a bond to decrease. Income on municipal bonds is free from federal taxes, but may be subject to the federal alternative minimum tax (AMT), state and local taxes. There are special risks associated with investments in real assets such as commodities and real estate securities. For commodities, risks may include market price fluctuations, regulatory changes, interest rate changes, credit risk, economic changes and the impact of adverse political or financial factors. Investments in real estate securities can be subject to fluctuations in the value of the underlying properties, the effect of economic conditions on real estate values, changes in interest rates and risks related to renting properties (such as rental defaults).

U.S. Bank and its representatives do not provide tax or legal advice. Your tax and financial situation is unique. You should consult your tax and/or legal advisor for advice and information concerning your particular situation.

